

CITY OF ATHOL

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Year Ended September 30, 2010

Prepared by

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Post Falls, ID

CITY OF ATHOL

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CITY OF ATHOL, IDAHO

ORGANIZATION

SEPTEMBER 30, 2010

MAYOR

Lanny Spurlock

CITY COUNCIL

Robert Rickel
Mark Dane
Lewis Miller
Shirley Hyke

CITY CLERK

Sally Hansen

MAINTENANCE

Robert Wachter

CITY OF ATHOL
STATEMENT OF NET ASSETS
September 30, 2010

	Government Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash & Investments	\$ 368,683	408,280	776,963
Receivables:			
Interest	154	-	154
Property Taxes	15,928	-	15,928
Accounts Receivable (net)	-	11,650	11,650
Due from Other Governments	15,887	-	15,887
Prepaid Expenses	2,819	1,410	4,229
Total Current Assets	403,471	421,340	824,811
Land	135,519	69,054	204,573
Capital Assets	257,064	1,275,970	1,533,034
Accumulated Depreciation	(108,442)	(537,104)	(645,546)
Total Capital Assets	284,141	807,920	1,092,061
Total Assets	\$ 687,612	1,229,260	1,916,872
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 2,800	-	2,800
Payroll, Benefits, and Taxes Payable	6,099	1,667	7,766
Compensated Absences Payable	7,547	3,774	11,321
Total Current Liabilities	16,446	5,441	21,887
Long-Term Liabilities	-	-	-
Total Liabilities	16,446	5,441	21,887
NET ASSETS			
Invested in Capital Assets, net of related debt	284,141	807,920	1,092,061
Unrestricted	387,025	415,899	802,924
Total Net Assets	\$ 671,166	1,223,819	1,894,985

See accompanying notes to financial statements and auditors' report.

CITY OF ATHOL
Statement of Activities
Year Ended September 30, 2010

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government	\$ 68,509	-	-	-	(68,509)	-	(68,509)
Highways and Streets	64,969	-	-	-	(64,969)	-	(64,969)
Depreciation	13,136	-	-	-	(13,136)	-	(13,136)
Total Governmental Activities	146,614	-	-	-	(146,614)	-	(146,614)
Business-type Activities							
Water Service	126,030	69,628	-	-	-	(56,402)	(56,402)
Total Business-type Activities	126,030	69,628	-	-	-	(56,402)	(56,402)
Total Activities	\$ 272,644	69,628	-	-	(146,614)	(56,402)	(203,016)

General Revenues:

Property Taxes	92,045	-	92,045
Other Governmental	95,787	-	95,787
Licenses and Permits	1,525	-	1,525
Interest Earnings	1,474	1,110	2,584
Rents	7,937	-	7,937
Other Revenues	6,177	-	6,177

Total general revenues and transfers

204,945 1,110 206,055

Change in net assets before extraordinary item

58,331 (55,292) 3,039

Extraordinary Item:

Employee Embezzlement	(41,271)	-	(41,271)
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Change in net assets after extraordinary item

17,060 (55,292) (38,232)

Net assets-beginning

654,106 1,279,111 1,933,217

Net assets-ending

\$ 671,166 1,223,819 1,894,985

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010**

	General Fund	Street Fund	Total
ASSETS			
Cash & Investments	\$ 240,073	128,610	368,683
Receivables:			
Interest	154	-	154
Property Taxes	15,928	-	15,928
Other Governments	10,045	5,842	15,887
Total Assets	<u>\$ 266,200</u>	<u>134,452</u>	<u>400,652</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ -	2,800	2,800
Payroll, Benefits and Taxes Payable	4,431	1,668	6,099
Deferred Revenue	9,371	-	9,371
Total Liabilities	<u>13,802</u>	<u>4,468</u>	<u>18,270</u>
FUND EQUITY			
Unreserved Fund Balance	137,727	14,014	151,741
Reserved Fund Balance	114,671	115,970	230,641
Total Fund Equity	<u>252,398</u>	<u>129,984</u>	<u>382,382</u>
Total Liabilities and Fund Equity	<u>\$ 266,200</u>	<u>134,452</u>	<u>400,652</u>
RECONCILIATION TO THE STATEMENT OF NET ASSETS:			
Total fund equity reported above			\$ 382,382
Add prepaid expenses not reported above			2,819
Add capital assets not reported above		392,583	
Less accumulated depreciation		(108,442)	
Net Capital Assets		<u>284,141</u>	
Less liabilities not reported above:			
Compensated Absences		(7,547)	
Total liabilities not reported above		<u>(7,547)</u>	
Deferred revenues for property taxes receivable			9,371
Net Assets			<u>\$ 671,166</u>

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Street Fund	Total
Revenues:			
Intergovernmental	\$ 108,754	75,806	184,560
Interest Earnings	987	487	1,474
Licenses & Permits	1,525	-	1,525
Rents	7,937	-	7,937
Other	6,177	-	6,177
Total Revenues	125,380	76,293	201,673
Expenditures:			
General Government	68,166	-	68,166
Highways and Streets	-	66,702	66,702
Capital Expenditures	2,048	2,048	4,096
Total Expenditures	70,214	68,750	138,964
Excess (Deficiency) of Revenues Over Expenditures	55,166	7,543	62,709
Other Sources (Uses):			
Transfers from Other Funds	-	-	-
Total Other Sources (Uses)	-	-	-
Net change in fund balances before extraordinary item	55,166	7,543	62,709
Extraordinary Item:			
Employee Embezzlement	(41,271)	-	(41,271)
Net Change in Fund Balance after extraordinary item	13,895	7,543	21,438
Fund Balance - October 1,	238,503	122,441	360,944
Fund Balance - September 30,	\$ 252,398	129,984	382,382

See accompanying notes to financial statements and auditors' report.

CITY OF ATHOL

Reconciliation of the
Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year Ended September 30, 2010

Changes in fund balances as reported on the governmental funds statements	\$ 21,438
Decrease in current property taxes not reflected in revenue on the governmental funds statements	3,272
Amounts reported as expenditures on the governmental funds statements not included as expenses on the government-wide statements:	
Capital Expenses	4,096
Prepaid Insurances	741
	<hr/>
Total expenses on the governmental fund statement not included included on the government-wide statement	4,837
Income on the government-wide statement of activity not included on the governmental funds statements:	
Contributed Capital	-
	<hr/>
Total income on the government-wide statement of activity not included on the governmental funds statements:	-
Expenses on the government-wide statement of activity not included on the governmental funds statements:	
Depreciation	(13,136)
Decrease in Compensated Absence Liability	649
	<hr/>
Total expenses on the government-wide statement of activity not included on the governmental funds statements:	(12,487)
Change in net assets on the government-wide statements	<u>\$ 17,060</u>

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2010**

	Water Fund	Total
ASSETS		
CURRENT ASSETS:		
Cash & Investments	\$ 408,280	408,280
Accounts Receivable (net)	11,650	11,650
Prepaid Expenses	1,410	1,410
Total Current Assets	421,340	421,340
Capital Assets	1,345,024	1,345,024
Accumulated Depreciation	(537,104)	(537,104)
Total Capital Assets	807,920	807,920
TOTAL ASSETS	\$ 1,229,260	1,229,260
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable	\$ -	-
Payroll, Benefits, and Taxes Payable	1,667	1,667
Compensated Absences Payable	3,774	3,774
Total Current Liabilities	5,441	5,441
Long Term Liabilities	-	-
TOTAL LIABILITIES	5,441	5,441
NET ASSETS		
Invested in Capital Assets	807,920	807,920
Unrestricted	225,174	225,174
Restricted - Expendable	190,725	190,725
Total Net Assets	\$ 1,223,819	1,223,819

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
STATEMENT OF INCOME AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Water Fund	Total
Operating Revenues:		
Charges for Services	\$ 67,219	67,219
Hookups & Other	2,409	2,409
Total Operating Revenues	69,628	69,628
Operating Expenses:		
Administrative	32,250	32,250
Maintenance & Operations	52,003	52,003
Utilities	12,522	12,522
Depreciation	29,255	29,255
Total Operating Expenses	126,030	126,030
Operating Income (Loss)	(56,402)	(56,402)
Non-Operating Revenues (Expenses):		
Interest Income	1,110	1,110
Total Non-Operating Revenue (Expenses)	1,110	1,110
Change in Net Assets	(55,292)	(55,292)
Net Assets - October 1,	1,279,111	1,279,111
Net Assets - September 30,	\$ 1,223,819	1,223,819

See accompanying notes to financial statements and auditors' report.

**CITY OF ATHOL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Enterprise Fund Types	
	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 71,541	71,541
Payments to Employees	(42,071)	(42,071)
Payments to Suppliers	(56,705)	(56,705)
Net Cash Used by Operating Activities	(27,235)	(27,235)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for Capital Acquisitions	(2,048)	(2,048)
Net Cash Used by Capital and Related Financing Activities	(2,048)	(2,048)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	1,110	1,110
Net Cash Provided by Investing Activities	1,110	1,110
Net Decrease in Cash and Cash Equivalents	(28,173)	(28,173)
Cash and Cash Equivalents, October 1,	436,453	436,453
Cash and Cash Equivalents, September 30,	\$ 408,280	408,280
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS:		
Operating Income (Loss)	\$ (56,402)	(56,402)
Adjustments to Reconcile to Cash Flow:		
Depreciation	29,255	29,255
(Increase)/Decrease in Receivables	1,913	1,913
(Increase)/Decrease in Prepaid Expenses	(1,410)	(1,410)
Increase/(Decrease) in Accounts Payable	(477)	(477)
Increase/(Decrease) in Accrued Wages	211	211
Increase/(Decrease) in Compensated Absences	(325)	(325)
Total Adjustments	29,167	29,167
Net Cash Used by Operating Activities	\$ (27,235)	(27,235)
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	-	-

See accompanying notes to financial statements and auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- ✓ the organization is legally separate (can sue and be sued in their own name)
- ✓ the City holds the corporate powers of the organization
- ✓ the City appoints a voting majority of the organization's board
- ✓ the City is able to impose its will on the organization
- ✓ the organization has the potential to impose a financial benefit/burden on the City
- ✓ there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Athol has no component units.

The City of Athol is a municipality of the State of Idaho. The City has oversight responsibility and control over all activities related to The City's functions. The City is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since the public elects the City Council members.

Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

The statement of activities presents a comparison between direct and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not received for a specific purpose and classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, and *enterprise* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Fund. The street fund accounts for the proceeds of specific revenue sources (other than trusts or major capital projects), the expenditures for which are legally restricted for purposes specified in the grant agreements. Principal sources of revenue are property taxes and state and local highway funds. Primary expenditures are for employee wages and benefits, street maintenance & repairs, and other general administration costs.

The City reports the following major enterprise funds:

Water Enterprise Fund. The Water Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are financed through user charges.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donation is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Assets, Liabilities, and Equity

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at September 30, 2010, based on market prices. The individual funds' portions of the pool's fair value are presented as "Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds monthly based on the average daily balance of each participating fund.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

The City considers cash and cash equivalents in enterprise funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible. Allowances for uncollectible was \$0 as of September 30, 2010.

Receivables for State Highway User's Tax, State Liquor, and State Revenue Sharing are recorded as revenue in governmental funds.

The City records enterprise fund charges as earned, not when collected.

Property Tax Calendar

Property taxes are levied on the third Monday of September and attach as an enforceable lien on property. They are payable in two installments on December 20 of the current year and June 20 of the next calendar year. The taxes are collected and remitted to the City by Kootenai County.

Inventories and Prepaid Items

The City has adopted the purchase method for recording and classifying material and supply purchases. Under this method, purchases of materials and supplies are recognized as expenditures when the goods are received and the transaction is vouchered. Because on hand materials and supplies of the City are not considered significant, no amount is reflected on the balance sheet and no portion of fund balance is reserved.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. In connection with implementation of GASB Statement No. 34, the City established a threshold of \$500 for capitalization of depreciable assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

General infrastructure assets acquired after September 30, 2003 consist of the road network assets that were acquired or that received substantial improvements subsequent to September 30, 2003 and are reported at historical cost.

Capital assets of the City are depreciated using the straight-line method over the following estimated lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 - 50
Buildings	30 - 50
Building Improvements	15 - 30
Vehicles	5 - 15
Office Equipment	5 - 10
Computer Equipment	5

Compensated Absences

Employees eligible for leave include full-time equivalent employees that have been employed by the City for one year.

During the first year of employment, a full-time equivalent employee accrues five (5) days of vacation leave per year. During the second year of employment, an employee accrues ten (10) days per year, and after three (3) years of employment and beyond, fifteen (15) days per year. The maximum of unused vacation leave a full-time employee may accumulate is the number of days, which the employee would accumulate in one year at the current accrual rate. Upon termination of employment from the City, an employee will be paid for unused vacation leave not to exceed the maximum amount normally accrued in one year of employment. The liability for compensated absences (\$11,321 at September 30, 2010), which represents normal accumulations, has been recorded in the government-wide statement of net assets, allocated between government activities and business-type activities.

The City's sick leave policy permits the accumulation of six (6) sick days per year up to a maximum of 30 days for full-time equivalent employees. Employees are not paid for unused sick days upon termination of employment. Accordingly, sick pay is charged to expenditures when taken. No provision has been made in the financial statements for unused sick leave.

The City's comp time policy permits the accumulation of hours that are worked in excess of a daily eight hour work day. This policy is currently informal and not included in their written resolution.

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED)

Fund Balance Reserves

The City has the ability to reserve those portions of fund equity that are legally segregated for a specific future use or that do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund equity that is available for appropriate in future periods. Reserved resources are used first to fund appropriations as necessary.

Reserved fund balances and restricted expendable net assets are resources that the City has designated for future capital needs.

Extraordinary and Special Items

Extraordinary items are transactions that are both unusual in nature and infrequent in occurrence. Special items are transactions that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. One extraordinary item was identified and disclosed in Note 7.

NOTE 2 - DEPOSITS AND INVESTMENT BALANCES

Summary of Deposit and Investment Balances

Following is a reconciliation of the City’s deposit and investment balances as of September 30, 2010:

	Pooled Cash and Investments	Other	Total
Bank Deposits	\$ -	710	710
Investments (net)	774,393	-	774,393
Cash on Hand	-	1,860	1,860
Total	\$ 774,393	2,570	776,963

	Government-wide Statement of Net Assets	Fiduciary Fund Statement of Net Assets	Total
Bank Deposits	\$ 710	-	710
Investments (net)	774,393	-	774,393
Cash on Hand	1,860	-	1,860
Total	\$ 776,963	-	776,963

Cash Deposits

As of September 30, 2010, the carrying amount of the City’s bank deposits was \$710 and the respective bank balances totaled \$5,911. Of the total bank balance, \$5,911 was insured through the Federal Depository Insurance Corporation (FDIC).

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 2 – DEPOSITS AND INVESTMENT BALANCES (CONTINUED)

Investments

State statutes authorize the City’s investments. The City of Athol is authorized to invest in U.S. Government obligations and its agencies, obligations of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, government pool and money market funds consisting of any of these securities listed. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City’s name. Category 2 includes investments that are uninsured and unregistered, or for which securities are held by the counter party’s trust department or agent in the entity’s name.

Investments in 2a7-like pools are valued based upon the value of pool shares. The City invests in one 2a7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool is duly chartered and administered by the State Treasurer’s Office and consists of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The balances above that the District has in the State Investment Pool are carried at fair value. The District’s portion of the State Investment Pool had an unrealized gain of \$1,077 as of September 30, 2010.

The City’s investments have been classified into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City’s name.
- (2) Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the City’s name.
- (3) Uninsured and unregistered, with securities held by the counterparty or by the counterparty’s trust department or agent, but not in the City’s name.

The following schedule classifies the investments of the City as of September 30, 2010, into the above noted categories:

	Category			Carrying Amount
	1	2	3	
Investment in Local Government Investment Pool	\$ 673,968	-	-	673,968
Total Investments	\$ 673,968	-	-	673,968

NOTE 3 – RECEIVABLES

The following is a schedule of property taxes assessed for the year, collected and remaining to be received.

Year	Balance 9/30/09	Levy 2009	Adjustments & Collections	Balance 9/30/10
2003-2010	\$ 7,186	86,000	(77,258)	\$ 15,928

See accompanying auditors’ report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – RECEIVABLES – (CONTINUED)

In accordance with NCGA Interpretation #3, revenue, which is not received within 60 days of the year-end, has been reflected as deferred revenue. The balance as of September 30, 2010 is as follows:

Taxes Due at September 30, 2010	\$	15,928
Received October 2010		(593)
Received November 2010		(5,964)
Total	\$	<u>9,371</u>

The analysis of accounts receivable and due from other governments is as follows:

GOVERNMENTAL ACTIVITIES:		
State Revenue Sharing	\$	5,360
Highway User's		5,842
State Liquor		4,685
Total	\$	<u>15,887</u>
 PROPRIETARY FUND:		
User Fees Receivable (net)	\$	11,650

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 135,519	-	-	135,519
Total capital assets not being depreciated	135,519	-	-	135,519
<i>Capital assets being depreciated</i>				
Buildings & Improvements	69,523	-	-	69,523
Equipment	183,446	4,095	-	187,541
Total capital assets being depreciated	252,969	4,095	-	257,064
Less accumulated depreciation for:				
Buildings & Improvements	16,449	7,788	-	24,237
Equipment	78,857	5,348	-	84,205
Total accumulated depreciation	95,306	13,136	-	108,442
Total capital assets being depreciated, net	157,663	(9,041)	-	148,622
Governmental Activity Capital Assets, net	\$ 293,182	(9,041)	-	<u>284,141</u>

See accompanying auditors' report.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 – CAPITAL ASSETS-(CONTINUED)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 69,054	-	-	69,054
Total capital assets not being depreciated	69,054	-	-	69,054
<i>Capital assets being depreciated</i>				
Buildings & Improvements	17,198	-	-	17,198
Equipment	1,256,724	2,048	-	1,258,772
Total capital assets being depreciated	1,273,922	2,048	-	1,275,970
Less accumulated depreciation for:				
Buildings & Improvements	15,753	208	-	15,961
Equipment	492,096	29,047	-	521,143
Total accumulated depreciation	507,849	29,255	-	537,104
Total capital assets being depreciated, net	766,073	(27,207)	-	738,866
Business-Type Activity Capital Assets, net	\$ 835,127	(27,207)	-	807,920

Because the City is a Phase 3 government (governments with total annual revenues of less than \$10 million), the City is encouraged but not required to report major infrastructure assets retroactively. The City has not yet made a determination as to whether or not to record infrastructure assets retroactively.

Unallocated depreciation expense of governmental activities was \$13,136.

NOTE 5 – DEFINED BENEFIT PENSION PLAN

Public Employee Retirement System of Idaho (PERSI) – The PERSI Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members of beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

CITY OF ATHOL

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE 5 – DEFINED BENEFIT PENSION PLAN-(CONTINUED)

The actuarially determined contribution requirements of the City of Athol and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2010, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members and 7.69% (7.65% + .04% effective March 1, 2010) for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. The City of Athol's employer contributions required and paid were \$9,425, \$10,023, and \$9,846 for the three years ended September 30, 2010, 2009, and 2008, respectively.

The City also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. City employees contributed \$0 to this plan in fiscal year 2009/10.

NOTE 6 - RISK MANAGEMENT

The City faces a number of risks of loss including damage to and loss of property and contents, professional liability, i.e. errors and omissions, and health insurance costs of employees. Commercial insurance policies are purchased for health insurance. Coverage for the loss or damage to property and professional liability insurance is provided by the Idaho Counties Risk Management Program (ICRMP). ICRMP provides general liability, property insurance, and public officials' insurance. The City, along with other participating entities, contributes annual amounts determined by ICRMP management. As claims arise they are submitted to and paid by ICRMP. There were no significant reductions in insurance coverage from the prior year.

The City's workman's compensation coverage is provided by the Idaho State Insurance Fund.

NOTE 7 – EMBEZZLEMENT

City personnel uncovered suspicious transactions performed by the City Clerk. The City terminated Sally Hansen in June 2014. She was convicted in U.S. District Court of embezzlement of public funds. The Court sentenced her to incarceration of four years and restitution in the amount of \$434,112. She stole \$417,879 from 2009 to 2014.

**CITY OF ATHOL
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED SEPTEMBER 30, 2010**

	General Fund			Street Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:						
Other Governmental	\$ 112,300	112,300	108,754	84,000	84,000	75,806
Interest Earnings	-	-	987	-	-	487
Licenses and Permits	-	-	1,525	-	-	-
Rents	-	-	7,937	-	-	-
Other	-	-	6,177	-	-	-
Total Revenues	112,300	112,300	125,380	84,000	84,000	76,293
Expenditures:						
General Government	154,100	154,100	68,166	-	-	-
Highways and Streets	-	-	-	230,000	230,000	66,702
Capital Expenditures	-	-	2,048	-	-	2,048
Total Expenditures	154,100	154,100	70,214	230,000	230,000	68,750
Excess (Deficiency) of Revenues Over Expenditures before Extraordinary Item	(41,800)	(41,800)	55,166	(146,000)	(146,000)	7,543
Extraordinary Item:						
Employee Embezzlement	-	-	(41,271)	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures after Extraordinary Item	(41,800)	(41,800)	13,895	(146,000)	(146,000)	7,543
Fund Balance - October 1,	238,503	238,503	238,503	122,441	122,441	122,441
Fund Balance - September 30,	\$ 196,703	196,703	252,398	(23,559)	(23,559)	129,984

See accompanying notes to the budget and auditors' report.

CITY OF ATHOL
NOTES TO THE BUDGET AND ACTUAL SCHEDULE
Year Ended September 30, 2010

Budgets are adopted for the general, street, and enterprise fund. The annual budget is a plan of financial operation with an estimate of expenditures and means of financing them. A preliminary budget is prepared in July, budget hearings are held, and the final budget was adopted in August, 2009.

The adopted budget constitutes the appropriations for the City and is the maximum limit of expenditures in each budgeted fund. The adopted budget may be amended for emergencies and other matters as provided by State law. The budget was not amended for fiscal year 2009/10.

The budget is prepared on the basis of accounting described for its governmental funds in Note 1 to the financial statement. Tax levies are set by expenditure requirements, but are authorized and limited by State law. Transfers of budget authority within a fund are permitted. Appropriations lapse at September 30, except those expenditures made prior to October 30 for appropriations of the preceding fiscal year may be charged to that fiscal year. There were no such expenditures in fiscal year 2010.

The amounts shown in the budget column of the schedule are the original and final budgeted amounts. State law requires only that a fund's total expenditures not exceed total budgeted expenditures.

City of Athol

Schedule of Findings and Responses

2010-1

Financial Statements

Criteria

The Auditing Standards Board (ASB) recently issued guidance to auditors related to an entity's internal controls over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including footnotes. SAS No. 115 emphasizes that the auditor cannot be part of your system of internal control over financial reporting.

Condition

In our judgment, the City's personnel and those charged with governance, in the course of their assigned duties, lack the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles (GAAP) and to detect and correct a material misstatement, if present.

Effect

In our judgment, the inability to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles does not allow the City the ability to detect and correct a material misstatement in the financial statements, if present.

Cause

The City hires personnel who have the ability to perform general bookkeeping functions, perform general office tasks, and assist in preparation of budgets. They have never been asked to prepare financial statements or related notes.

Recommendations

In our judgment, management and those charged with governance need to understand the importance of this communication. However, due to the lack of resources available to management to correct this material weakness in financial reporting, we recommend management mitigate this weakness by having heightened awareness of all transactions being reported and consider consulting with an individual that will enhance financial reporting capabilities.

Views of Responsible Officials

Council will begin to review transaction and the treasurer report more closely. Council will also watch for additional training opportunities for staff where financial reporting practices are addressed.

2010-2

Segregation of Duties

Criteria

An accounting system that provides adequate internal controls would be designed so that no one individual is involved with a transaction from its beginning to its ending.

Condition

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Council remains involved in the financial affairs of the organization to provide oversight and independent review functions. An accounting system that provides adequate internal controls would be designed so that no one individual is involved with a transaction from its beginning to its ending.

Effect

This situation dictates that the Council remains involved in the financial affairs of the organization to provide oversight and independent review functions.

Cause

The City does not have enough staff to adequately segregate all accounting functions.

Recommendations

Our recommendation is to perhaps increase the staff size of the City to allow for adequate segregation of duties or involve a City Council member in some aspects of the financial reporting process.

Views of Responsible Officials

The city understands your recommendation; however at this time the city is not able to increase its staff in order to better segregate accounting functions. Increased staffing will be considered in the future.

Procedures now include: 1) the bank deposit being prepared by a different employee from the one taking in the money, as often as scheduling allows; 2) the council has hired and utilizes an outside bookkeeper to do all reconciling of city bank account and LGIP statements; and finally 3) the President of the Council will be the one to open the mailed city bank statements and review the necessary documents matching up records from QuickBooks, bank statements, and copies of actual checks written.

2010-3

Disbursements

Criteria

Fund expenditures should be classified according to the fund accountable for the disbursement and classed further by (1) function, (2) organizational unit, (3) activity, (4) character, and (5) object class.

Condition

The City's accounting records had various transactions that were miscoded or the vendor was entered incorrectly.

Effect

Net effect of the financial statements total expenditures had a net effect of zero, however, incorrect recording of vendors and/or miscoding to improper accounts may provide misleading information than the actual results occurring.

Cause

The accounting personnel had mistakenly recorded expenditures to the wrong vendor, account, and/or fund.

Recommendations

We recommend that the City's accounting personnel make sure the transactions are allocated to the proper fund, vendor, and account when recording accounting transactions.

Views of Responsible Officials

Better record keeping and oversight is needed, recent findings in FY 2014 shows that this was possibly done intentionally by staff at the time, in efforts to hide actual expenditures. The City now has a better segregation of duties, and therefore transactions are now being reviewed by more than one person.

2010-4

Allocation of cash per fund

Criteria

Cash and cash equivalents must be recorded to the proper fund for proper reporting on the financial statements.

Condition

The City's three funds share one checking account and one savings account. The allocations of cash per fund were misstated.

Effect

Cash was misstated in each fund.

Cause

The accounting personnel had mistakenly recorded some revenue items in the improper fund.

Recommendations

We recommend that the City's accounting personnel make sure the transactions are allocated to the proper fund when recording accounting transactions.

Views of Responsible Officials

Better awareness and record keeping will be considered and paired with any additional training opportunities for staff, in order to gain a better understanding of how to record accounting transactions properly. Once the city is up-to-date on its audits, clearer direction as to fund allocation will be given and followed.

2010-5

Water billings

Criteria

A proprietary fund should recognize revenue on an accrual basis, meaning that revenue is considered realized when (1) the earning process is complete or virtually complete and (2) an exchange has taken place.

Condition

The City's accounting personnel was not reconciling their water billings into the accounting software.

Effect

The unadjusted accounts receivable was misstated by approximately \$412.

Cause

The City's accounting personnel was keeping track of water billings in the separate billing software and did not know the importance of reconciling the billings into the accounting software to maintain the water fund on an accrual basis.

Recommendations

We recommend that the City's accounting personnel adjust for billings on a monthly basis into their accounting software. Payments made should be adjusted to the accounts receivable. We recommend that the accounting personnel maintain their accounting records on the accrual basis as required by governmental generally accepted accounting principles.

Views of Responsible Officials

The City now has procedures that allows for better reconciliation and record keeping of water billings. Each water customer account has now been reviewed and billings are up-to-date. In addition, monthly GL entries are done to account for the billings and weekly deposits are deposited to receivables for more accurate reconciliation. Finally, the 3 city water accounts have been turned off for billing but the City is tracking the usage amounts. A monthly water report is also being prepared for City Council to review.

2010-6

Form 941

Criteria

According to the Internal Revenue Service, form 941 is due by the last day of the month that follows the end of the quarter. In addition, the form 941 must report the total wages paid to all employees during the quarter. These quarterly reports must reconcile to the W-3 and employee's W-2 reported at the end of the calendar year.

Condition

The City's payroll reports were misstated and filed late on a couple of instances during the fiscal year 2009/2010.

Effect

We believe that the City has overpaid for payroll taxes by an estimated \$500 due to misstated reports. In addition, we believe that the employees of the City may have misstated W-2s due to the inaccuracies within the payroll reports.

Cause

The City's accounting personnel was reporting 941s on an accrual basis, using the timecards to prepare the reports instead of a payroll summary listing the amounts paid to the employees paid during the quarters. At times, the form 941 omitted wages paid to mayor, council, and the attorney.

Recommendations

We recommend that the City report their payroll reports on time and accurate per IRS and State regulations. We recommend that the City's accounting personnel attend a payroll course or that the City engage a third party payroll agency to report their payroll transactions.

Views of Responsible Officials

The city will watch for any additional payroll training courses for staff. In addition, staff will ensure more timeliness is met with payroll reporting. The new City Clerk is being trained by an outside bookkeeper to ensure more timely and accurate payroll reporting is happening.